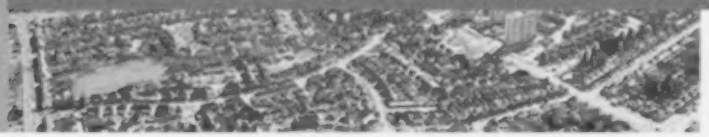
CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Northern Ontario



Date Released: Spring 2007

New Home Market

Thunder Bay's Single-Detached Starts Dipping

The Thunder Bay CMA is looking at a second consecutive year of single-detached home starts declines. With the full effect of the spate of bad news in Thunder Bay's forestry sector having yet to be felt, single-detached home starts in Thunder Bay are expected to fall about five per cent in 2007 to 150 units before recovering in 2008. There has been volatility in multiple unit starts in Thunder Bay and 2006 was no different with a mere eight having started. Ninety multi-family home starts are on the horizon over the next two years.

Thunder Bay's new home market is in stark contrast to Northern Ontario's other major center, namely Greater Sudbury, although both markets did witness housing starts improvements in the first quarter of 2007 over the

Figure 1

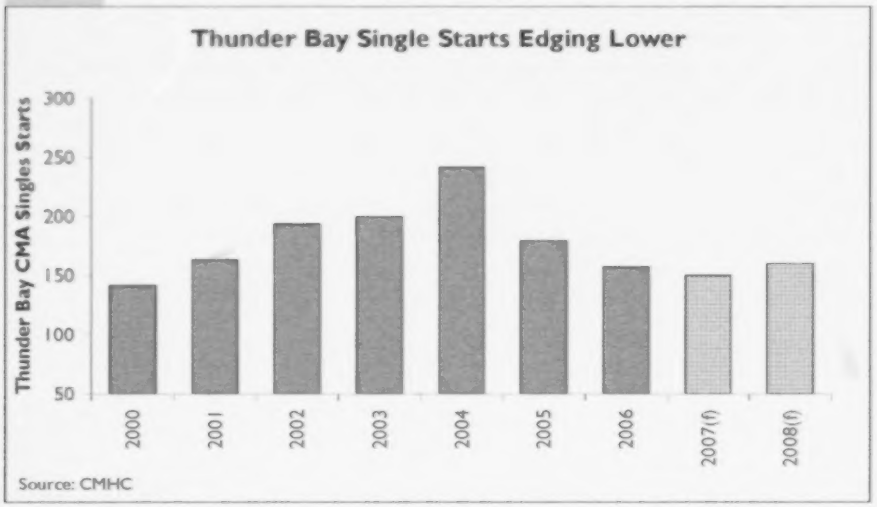


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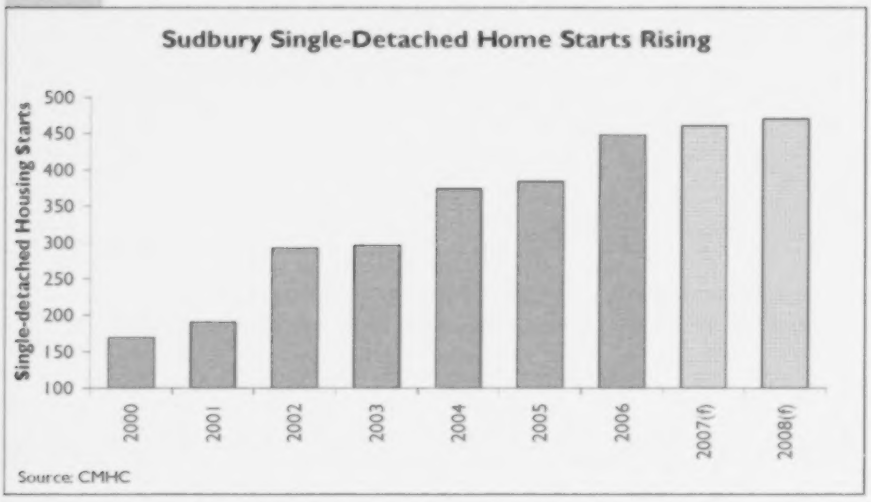
Figure 2



same three months in 2006. In Thunder Bay, twenty-one units started, up 50.0 per cent from the first quarter in 2006 while 24 homes commenced in Greater Sudbury up 14.3 per cent from the first quarter of 2006.

Building lots are readily available in Thunder Bay which means lot prices should not be a deterrent to new home demand in 2007.

Sudbury Starts Continue Strong

Residential construction in the City of Greater Sudbury got off to another good start in 2007. With total housing starts growing at a 14.3 per cent year-over-year rate in the first quarter, CMHC is forecasting 460 single-detached starts and 30 multi-family starts for a total of 490 Greater Sudbury starts in 2007. A further 530 total home starts are anticipated in 2008.

Key to the buoyant new construction market is employment, which has been trending up since 2000 in Greater Sudbury and provides a solid footing for housing market activity. The buoyant mining and mining supply sector is the foundation of this employment resurgence. Greater Sudbury's resale housing market continues to experience conditions that favour sellers at present. Tightness in the resale market causes prospective buyers to consider new homes.

Resale Market

Thunder Bay Market Still Balanced

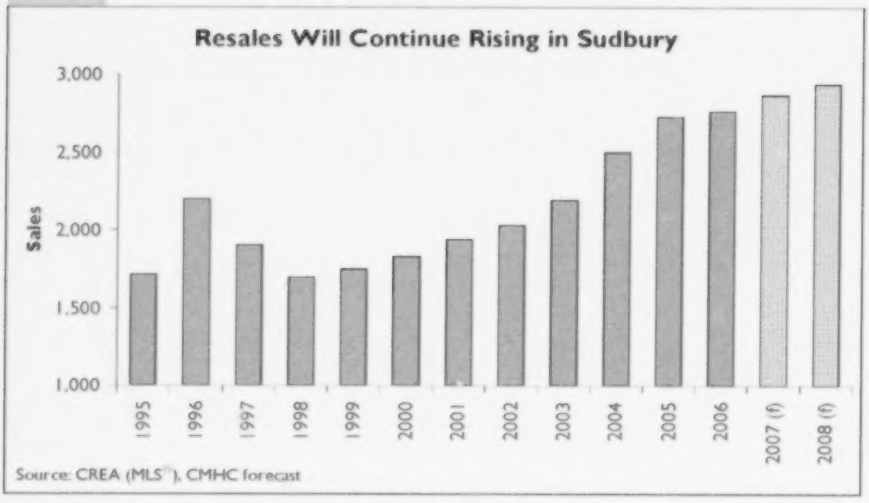
Thus far, Thunder Bay sales in 2007 are up 9.4 per cent on a year-over-year basis. Despite the increase from a year earlier, the 292 first quarter sales through the Multiple Listing Service® were the third lowest in 13 years. Sales are expected to finish the year off two per cent and fall another one per cent in 2008.

New listings, on the other hand were well below 2006 levels, off nearly 15 per cent thus far. CMHC expects a new listings decline of five per cent in 2007 and a one per cent increase in 2008. This, despite the relatively weak demand and weakness in the forest sector, is putting some pressure on resale housing prices.

The sales-to-new-listings ratio has risen and market conditions have tightened supporting the continued balanced market classification. Prices, which have risen a dramatic 12.2 per

Figure 3

Figure 4



cent in the first quarter, are forecast to moderate and edge up one per cent in 2007 and another one per cent in 2008. Sales are primarily of more expensive homes, above traditional market ranges, which are helping skew the Thunder Bay average.

Sudbury Resale Market Still Hot

Relatively low interest rates, pent-up demand generated from job gains over the past decade in combination with the healthy in-migration from other Ontario centres will contribute to demand for resale housing in 2007 and 2008. CMHC expects about 2,850 resales in 2007 in Greater Sudbury, which will set another record. Sales should rise again in 2008 to approach 2,950 sales.

Sellers' market conditions continue in Greater Sudbury. First quarter sales hit a new record reaching 585, 7.1 per cent above last year's figure. New listings fell 12.3 per cent. Sudbury's sales-to-new-listings ratio was the highest in the province in the first quarter. Bidding wars continue for the limited number of homes listed for sale. Anecdotal evidence suggests buyers are paying over list price on occasion.

Tight resale home market conditions pushed up prices 21.3 per cent year-over-year in the first quarter. Price pressure should adjust as the year progresses. Prices will close the year up 10.0 per cent in 2007. The sales-to-new-listings ratio should ease, causing price increases to moderate to about 5.0 per cent in 2008.

Neighbourhood specific analysis is showing that market tightness is widespread. From Garson to the Hospital Area Subdistrict to Westend-Gatchell, home prices are accelerating given the strong demand throughout the city.

Employment Trends

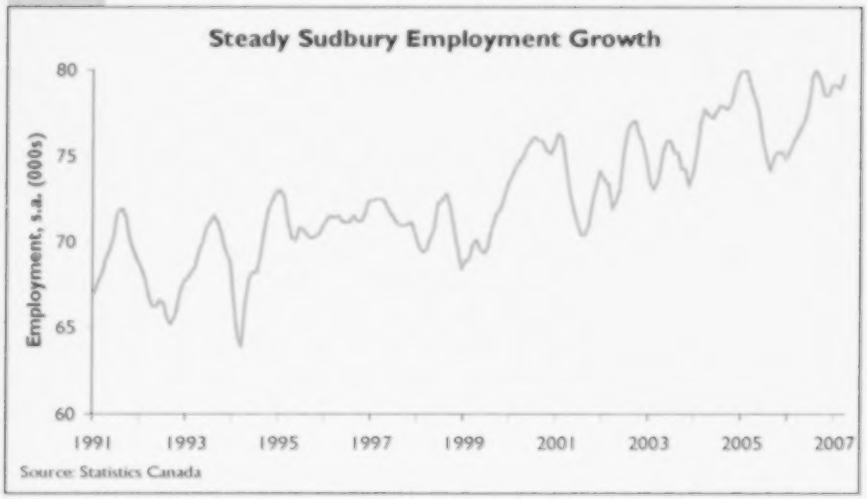
Thunder Bay Labour Market Stabilizing

Thunder Bay is experiencing weakness in housing demand since consumers are hesitant to assume major obligations given the many lay-offs announced, especially in the forest products industry. High energy costs, a stronger Canadian dollar and shortages of wood fibre are hampering Thunder Bay's economy.

Thunder Bay registered nearly 2,500 job losses between 2005 and 2006,

Figure 5

Figure 6



and the first quarter of 2007 has been similarly unspectacular. Employment is expected to rise by a mere 0.7 per cent in 2007. Surprisingly, despite the weakness in employment, the unemployment rate has not risen. This is likely because, as employment fell, some discouraged workers stopped seeking jobs while other unemployed workers simply left the city.

A new $710 million TTC subway contract at Bombardier's local transportation equipment manufacturing plant gives reason for optimism in the City. The call centre industry in Thunder Bay continues to produce jobs as does the big box retail sector as expansion continues. Similarly, the joint venture medical research center, the Institute for Collaborative Research, spearheaded by the Thunder Bay Regional Health Sciences Centre, is beginning to create knowledge sector jobs.

The stabilization of employment leads to cautious optimism for the local employment situation. CMHC expects 500 new jobs to be secured over the next year with another modest increase in 2008.

Sudbury Labour Market Improves Dramatically

CMHC's forecast is for gains of 1,000 jobs in both 2007 and 2008 providing a strong footing for another good year for housing. Employment has been strengthening in Sudbury since the middle of 2006 with quarterly average employment numbers well ahead of year-earlier levels. On average, 77,800 people were working in Sudbury in 2006, while in the first quarter of 2007, there were 79,300 employed persons, nearly 4,000 more than the 75,700 employed during the first three months of 2006. (see Charts below).

The run-up in job numbers since the late 1990s in Greater Sudbury explains some of the strength exhibited in the housing market since then. Employment growth is occurring primarily among baby boomers over 45 years old, who because of their affluence, are looking at move-up opportunities. The goods- producing sector has also shown increases in the last few years, although employment levels in this sector are barely above where they were in 1996.

Nickel prices hit a record high of US$22.84 per pound on March 19, 2007 which bodes well for Sudbury's two nickel producers, CVRD-Inco and Xstrata. The sale of Inco and Falconbridge to foreign owners in 2006 has raised concern about the future of their operations, but in the short term, changes will be minimal. Production and refining decisions will affect the local housing market mainly in the longer term, if at all.

Elsewhere in the Sudbury economy, the mining supply and service sector is growing. Institutional spending at the Regional Hospital, Laurentian University's Centre for Excellence in Mining Innovation and enhancements at Dynamic Earth, a local tourism attraction, are but a few of the investments that are supporting the upswing in the local economy.

Migration

Thunder Bay Migration Negative Again

Both migration trends and natural increase (births minus deaths) contribute to population change. The 2006 Census results released in March 2007 for Thunder Bay showed a slight population gain for Northwestern Ontario's largest market. Net in-flows from the districts around Thunder Bay contributed to this increase between 2001 and 2006. After two consecutive years of net inflows, Thunder Bay's net migration turned

negative again in 2004-05, according to data released by Statistics Canada in September 2006. This appears to reflect the weakness that has existed in the forest products sector now for some time. Migration, which was strongly negative through the 1990s with more than 5,000 net losses over the ten year period, improved, turning positive, between 2002 and 2004, only to revert back to a net drop in the latest period for which data is available. Net migration is anticipated to stay negative in both 2005-2006 and 2006 - 2007, but improve in 2008 as movement into Thunder Bay from the region increases.

Sudbury Situation Improves Again

For the third consecutive year, net migration figures released by Statistics Canada in September 2006, showed an inflow to Greater Sudbury. This, corroborated by the higher population numbers from the 2006 Census release, supplies a tangible boost to the psyche of Greater Sudbury consumers. Sudbury's population grew by nearly 3,000 or 1.7 per cent between 2001 and 2006. Migration flows have been reversed. About 2900 people left Sudbury in 1998-99, but over 1,100 arrived between 2002-05. Migration is forecast to improve further over the foreseeable future.

Rental Market

Thunder Bay Vacancy Rate Rises

After falling to 4.6 per cent in 2005, the vacancy rate rose to 4.9 per cent in October 2006. Thunder Bay has the fourth highest vacancy rate among centers with populations over 100,000.

Job gains in the 15-24 age category were countered by job losses in the 25-44 age group and the services producing sector of the Thunder Bay economy, helping to soften rental demand over the past year. Net migration turned negative after two consecutive positive years of net in-migration. Finally, after a few years' increases in ownership costs,, rents have become reasonably affordable by comparison, especially at a time when consumer confidence is relatively weak.

CMHC's rental survey found that North ward vacancies remain below average while South ward vacancies moved higher. Proximity to the university and the newer rental stock in the North ward are two key reasons for its relative popularity in the Thunder Bay rental market. The vacancy rate in the north ward rose to 3.7 per cent from 3.3 per cent in 2005 while south ward vacancies climbed to 6.2 per cent from 6.1 per cent in 2005.

CMHC expects vacancy rates to rise further in 2007 in light of declining demand. The forecast is for the vacancy rate to rise to 5.5 per cent in 2007 and 6.0 per cent in 2008.

Sudbury Vacancy Rate Tightens Further

Greater Sudbury's vacancy rate for rental apartment structures with at least three units fell to 1.2 per cent in October 2006, from 1.6 per cent in October 2005. The rate decline marks the seventh consecutive year the vacancy rate has fallen in Sudbury coming off the 1999 peak of 11.1 per cent. The vacancy rate will fall to one per cent in Sudbury in 2007.

Five factors contributed to a lower vacancy rate in Sudbury. Firstly, there is no new rental supply expected for 2007. Secondly, rising homeownership costs will discourage renters from moving into homeownership. Thirdly, there will be more migrants looking for rental units. Fourthly, rising employment in 2007 bodes well for rental demand, both from current residents and from in-migrants attracted by a stronger job market. Finally, college and university enrolment is up and more students are considered mature. Many of these older students are more interested in off-campus housing options. In addition, double cohort students, now in their fourth year of university, continue to create demand for off-campus rental housing.

Rents are forecast to rise in Greater Sudbury amid relatively low vacancies. Sudbury two-bedroom rents will rise 5.8 per cent in 2007 to $748 per month from $706 in 2006.

Mortgage Rate Forecast

Mortgage Rates Will Remain Low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will

Figure 7

help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Forecast Summary
Thunder Bay CMA
Spring 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	1,567	1,562	1,539	1,508	-2.0	1,493	-1.0
MLS® New Listings	2,616	2,788	3,015	2,864	-5.0	2,893	1.0
MLS® Average Price ($)	115,262	125,303	127,464	128,800	1.0	130,000	0.9
New Home Market							
Starts:							
Single-Detached	241	179	157	150	-4.5	160	6.7
Multiples	46	48	8	50	**	50	0.0
Semi-Detached	10	4	4	10	150.0	10	0.0
Row/Townhouse	5	0	4	0	n/a	0	n/a
Apartments	31	44	0	40	n/a	40	0.0
Starts - Total	287	227	165	200	21.2	210	5.0
Average Price ($):							
Single-Detached	213,231	222,587	226,633		n/a		n/a
Median Price ($):							
Single-Detached	210,000	215,000	215,000		n/a		n/a
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.9	1.7	1.7	1.0	-	2.0	-
Rental Market							
October Vacancy Rate (%)	5.0	4.6	4.9	6	0.6	6.0	0.5
Two-bedroom Average Rent (October) ($)	679	689	696	703	1.0	707	0.6
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	63,000	63,800	61,500	62,000	1	62,400	1
Employment Growth (%)	-3.4	1.3	-3.6		-3.6		0.0
Unemployment rate (%)	8.2	7.1	7.5	7.5	-	7.7	-
Net Migration	-61	-504	-739	-500	-32	250	-150

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary
Greater Sudbury CMA
Spring 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	2,500	2,726	2,762	2,867	3.8	2,936	2.4
MLS® New Listings	3,906	4,074	3,989	3,790	-5.0	3,827	1.0
MLS® Average Price ($)	122,866	133,937	150,434	165,500	10.0	173,700	5.0
New Home Market							
Starts:							
Single-Detached	374	384	448	460	2.7	470	2.2
Multiples	14	16	29	30	3.4	60	100.0
Semi-Detached	10	12	18	10	-44.4	10	0.0
Row/Townhouse	4	4	11	0	n/a	0	n/a
Apartments	0	0	0	20	n/a	50	250.0
Starts - Total	388	400	477	490	2.7	530	8.2
Average Price ($):							
Single-Detached	208,283	236,530	266,695	n/a		n/a	
Median Price ($):							
Single-Detached	189,000	225,000	269,000	n/a		n/a	
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.9	1.7	1.7	1.0	-	2.0	-
Rental Market							
October Vacancy Rate (%)	2.6	1.6	1.2	1.0	-0.2	0.8	-0.2
Two-bedroom Average Rent (October) ($)	655	668	706	741	5	778	5
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	78,200	76,200	78,100	78,800	1	79,800	1
Employment Growth (%)	5.1	-2.6	2.5		2.5		0.0
Unemployment rate (%)	8.2	7.7	7.2	6.7	-	6.4	-
Net Migration	161	409	291	300	3.1	300	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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